



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

Reimbursing volunteer expense is a good idea

By Barry VanderKelen

In their enthusiasm, some nonprofit board members and other volunteers may pay for items or services out of pocket and seek reimbursement from the organization.

But reimbursing volunteers can be tricky. If handled incorrectly, the issue of reimbursements could dampen enthusiasm and run afoul of laws. So is reimbursing volunteers for expenses incurred while working on behalf of the nonprofit a good idea?

To answer this and related questions, I turned to J. Christopher Toews, an attorney in San Luis Obispo who, among other specialties, has one of the largest nonprofit organization law practices in the county.

Generally, Toews thinks reimbursing volunteers is a good idea. He adds that any organization that pays expense reimbursements should have written policies about them. These policies, he said, "should specify what types of expenses are reimbursable, whether there are limits on certain types of expenses, and the procedures and time limits to be observed for filing reimbursement claims."

Are there any laws preventing expense reimbursements?

"Not that I'm aware of," Toews said. "However, all charities are public trusts whose funds must be held and expended for charitable purposes. Expense reimbursements for items that are excessive or extravagant for volunteers' work may constitute unlawful diversions of assets for charitable purposes."

Written policies can help keep volunteers' enthusiasm in check. When someone such as a board member is reimbursed, does this trigger reporting or disclosure to the Internal Revenue Service? Not if they are reimbursements for actual, allowable, and documented expenses, Toews said. On the other hand, if someone is given money to do something such as take a prospective board member to lunch or buy flowers for the fundraising event, for instance, and no expense documentation is requested, this might be treated as nonemployee compensation and trigger the person receiving an IRS Form 1099 from the nonprofit.

So what happens if a volunteer incurs expenses on behalf of a nonprofit and doesn't seek reimbursement? Is that a charitable gift? This can be complicated, Toews warns.

To claim the expense as a donation, the volunteer must receive a written acknowledgement from the nonprofit that describes the services provided by the donor and whether or not goods or services were offered to the donor in

exchange for the donation. The volunteer, in other words, will need to provide documentation of the expenses paid so the nonprofit can generate the gift receipt.

Specific requirements can be found in IRS publication 1771, "Charitable Contributions—Substantiation and Disclosure Requirements," and IRS publication 526, "Charitable Contributions." The intent of these documentation requirements is to ensure that charitable dollars are doing charitable work.

"If reimbursements need to be made on a regular basis," Toews said, "it may be advisable to obtain a corporate credit card for each volunteer to use." This allows the volunteer to continue working on behalf of the nonprofit and eliminates confusion about reimbursements. Clear policies and well-understood limits are necessary, however.

In summary, the issue isn't whether reimbursing legitimate expenses is proper, it's making sure expenses are properly limited.

Well-intentioned volunteers may overspend and cause budget problems for the organization or special event.

Written policies that are disseminated throughout the nonprofit will make sure enthusiasm continues in a fiscally responsible way.

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Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

Nonprofit Business Column of The Tribune

The San Luis Obispo Tribune publishes a column every other week in the Business section dedicated to the business practices of nonprofit orgs. Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes the bi-

weekly column to help strengthen nonprofit organizations in the community. Each column is reprinted here as a one-page handout for use by local organizations. Barry can be reached at 543-2323 or by e-mail at barry@slocf.org.